Chapter 2 - How long does it take to prepare for an exit?

Speakers

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Transcript

Russell Prior
In chapter two, our HSBC and industry experts discuss how long it takes to sell a business, the key steps involved, and how owners can prepare themselves in the event that the sale falls through.

Andra Ilie
So let's kick things off by talking timescales. How long does the business exit process typically take?

Greg Limb
A question we're often asked by clients while we're advising is, how long should it be before I think about the timing for the sale? When do I need to start considering the timing for that sale? The right answer is there's never an optimum point as to where it is, but we generally find that those who prepare in advance – two, three years in advance of the actual sale taking place, find themselves better prepared for the sale. Better prepared in terms of the fact that they've been able to consult, they've been able to plan, they've been able to consider what they may need to do, all in the hope of helping them maximise the value that they can take out of the business. And it could be that there's often simple things that they can do. It might be that they know that there's some big windfalls coming into the business down the line. So making sure that you time it so that that windfall falls into the business at the period of time that a purchaser is looking at, can be a real key ingredient to making sure that the time is perfected.

Sophie O'Connor
So when talking to business owners about preparation for an exit and realistic timelines, I would estimate that an active sale process is somewhere between perhaps three to six months. But the overall deal timeline, including from the very initial offers or indications, early marketing, fireside chats, all the way through sale preparation, due diligence, and ultimately to execution, can be more in the range of 12 to 24 months.

Nicola Roberts
I think in broad terms, people do need to allow at least 12 months in all honesty, almost regardless of the state of their business at the outset. I think the key criteria are really around making sure the data tells the right story that you want it to and are you in a good position to be able to do that? So inevitably, that's going to take at least a year.

Russell Prior
It's clear from what we've heard, that it is never too early. However, what we've also heard is that the timing you need to allow can vary depending on which part of the process you are preparing for. And in addition, don't forget that you need to think about how much time you need to prepare yourself personally for an exit.

Andra Ilie
Now breaking that timing issue down into more detail, we next asked our speakers – What are the key steps for owners preparing for and going through a business exit?

Tobias Sommer
In terms of the key steps in the sale process, we really think about the preparation phase as the most important one. That includes hiring advisors who will support the due diligence phase, particularly commercial, financial and legal due diligence advisors. Your banker will help you select the right advisors.

John Barnett
I'd say number one, know who your buyer is likely to be, possibly even before they know it themselves because that will impact a lot on how you prepare for the exit.

Second, do what's called vendor due diligence. So, think about the legal, commercial and financial questions that the purchasers are going to ask and have the answers ready, ideally set up in a data room.

Third, I would say get your team in place early. I would say this, but speak to your lawyers early, the legal stuff comes later, but if you speak to your lawyers early, it can make a real difference. And don't worry that the clock is ticking straight away. Be open with your lawyers about that and they'll be very happy to have early conversations with you.

Jacques Callaghan
One of the key considerations is momentum. And making sure that one maintains that momentum, which is helped by competitive tension. As part of thinking about that objective, part of the comprehensive preparation that one needs is to hire a series of specialist advisors, whether that be financial, vendor due diligence providers, or legal or IT, or environmental or real estate, or management advisors, to ensure that all the due diligence is comprehensively done before the launch.

Nicola Roberts
I think when preparing to sell your business, there are a number of key steps. I think the one at the outset though, is making sure you are able to really present the right value of your business to the market or whoever your market is, who's interested in buying it. In relation to that, having a really compelling exit strategy and equity story, and making sure the data tells the right story. So to start with, have all divestment options and the impact on the valuation for all assets being considered? What's the portfolio investment and capital allocation strategy? Is there a clear proposition and compelling growth story behind that strategy? Have the current and potential value of the portfolio been assessed? And then will that story resonate with different types of investors or buyers and their requirements?

Russell Prior
We know that a business exit can be a stressful and emotional process. So how can business owners prepare themselves and manage the fallout if the sale doesn't go through?

Anna Macrae
Preparing for an exit does involve navigating through different emotions and uncertainty, including the possibility of the deal not going through. So in managing this tension, it's often useful for the business owner to entrust the process to a trusted advisor who can offer support and guidance on these topics. It's important to establish a relationship of both trust and accessibility with any advisors. That could help to alleviate the tensions that may arise during the process.

Greg Limb
Walking that fine line between looking to the sale and losing track or losing focus within the business, is incredibly delicately poised when anybody is going through that sale of the business. We often find, and the best advice we tend to find to give people, is to make sure that you have a close group of people who are working with you on the sale within the business – who keep that information tight and then let everybody else carry on running the business. In the event then that the sale doesn't take place, the business hasn't been harmed. Equally, we also tell people not to get too far ahead of themselves and think about being on the beach, rather than being in the business.

Andra Ilie
Listening to our experts, it appears that it's time that's important when preparing to exit, rather than timing. Consequently, preparation is key, and that includes having the right team in place to help you prepare and execute your exit plan.

To listen to the other chapters in our 'Is Timing Everything?' episode, visit our Beyond Business Ownership series page on the HSBC Global Private Banking website, **www.privatebanking.hsbc.com/beyond-business-ownership.**